THE CONFERENCE BOARD

THE CONFERENCE BOARD® C-SUITE OUTLOOK 2022

Reset and Reimagine

SURVIVING AND THRIVING IN
A UNIQUELY CHALLENGING
BUSINESS ENVIRONMENT

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Surviving and Thriving in a Uniquely Challenging Business Environment

Executive Summary

COVID-19 Is Proving to Be More of a Marathon Than a Sprint

At the start of 2021, many forecast that by year-end, the majority of the world population would be vaccinated and that most economies would shift into expansionary mode. However, one year later, only 44 percent of the global population is fully vaccinated, and herd immunity has yet to be achieved.[1] Our 2022 C-Suite Outlook survey shows that the pandemic will continue to shape a uniquely challenging business and human capital environment. **Rising inflation, labor shortages, supply chain disruptions, and changing consumer behaviors** are the high-impact events that are top of mind for CEOs and other C-suite executives. Each is directly tied to the pandemic, yet each also threatens to take on a life of its own. Executives will look to digital transformation, business model innovations and better cash flow management, more flexible supply chains, a values-based corporate culture, and innovative human capital management to respond.

Are organizations ready to seize opportunities in the coming year? Strategies for deflecting pricing pressures and transitioning to the appropriate fit for an emerging work-from-anywhere model show agility in action. Yet confidence levels in managing through the next big global crisis vary within organizations. Functional leaders—the C-suite team—generally believe that their organizations are now better prepared to handle a range of future potential systemic disruptions. CEOs are generally less likely to agree. The gap is widest regarding cybersecurity threats. Yet there is consensus on climate change: just one in four agree that their organization is prepared for a major crisis related to an extreme weather event. The past two years have shown that organizations can learn to deal with a global crisis. The key in preparing for the next one lies in developing processes to model possible events and to proactively build contingency plans.

This year's survey, our 23rd, focuses on the external stress points the C-suite faces and their impact on strategies. We also explore C-suite views on the benefits and risks of hybrid work models, and priorities related to environmental, social, and governance (ESG) matters. This survey was conducted between October and November 2021, with 1,614 C-suite executives responding, including 917 CEOs across the globe.

1 Dana M. Peterson, *StraightTalk® A Deep Dive on Risks to the Outlook*, The Conference Board, December 2021.

Insights for What's Ahead

High-impact issues and top priorities for CEOs in 2022

Select the **external factors** that you think will have the greatest impact on your business next year.	Select the **internal issues** your company will focus on in the coming year.
HIGH IMPACT	HIGH FOCUS
• COVID-19 disruptions • Rising inflation • Labor shortages • Supply chain disruptions • Changes in consumer behavior	• Attract and retain talent • Accelerate digital transformation • Improve cash flow • Develop "Next Gen" leaders • Modify business model
LOW IMPACT	LOW FOCUS
• Corporate debt levels • Vaccine availability • Future of cities • Cryptocurrencies • Shareholder activism	• Revisit mission and/or purpose • Pay down debt • Prepare for rising interest rates • Decentralize decision making • Significantly change capital allocation priorities

Note: 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

Inflation concerns are skyrocketing. Over half of CEOs globally (55 percent) expect elevated pricing pressures to last until mid-2023 or beyond. Inflation has jumped to the second-highest external threat to business from the 22nd in our 2021 survey. Most respondents, including 95 percent of CEOs based in manufacturing, say they're currently facing upward pricing pressure for inputs (e.g., raw materials, wages) due to supply chain bottlenecks, labor shortages, and volatile energy prices. To cope, they plan balancing actions that include cutting costs, passing increases downstream to consumers and end users (the strategy most favored by US CEOs), and absorbing price increases into profit margins (though there are currently few signs that CEOs are willing to take this action). Few see changing vendors as a viable solution—likely a reflection of tight supplies.

Less than 40 percent of CEOs believe their organization is "well prepared" for an inflation-related crisis. They're prioritizing strategies like agile team work to move their organizations up the learning curve. Many CEOs are running organizations whose workforce, including C-suite executives, has likely never experienced inflation's broad influence on product pricing and sourcing decisions, customer relations and cash management, and above all, on wages. Agility builds a cadenced resilience in the way an organization makes decisions during periods of heightened uncertainty, allowing it to make short-term commitments and to extend those commitments if needed, depending on real-time, market-based realities.[2] This approach supports both the acceleration

2 Jeff Gothelf, "Bring Agile to the Whole Organization," The Conference Board, March 2015.

of digital transformation and the modification of business models—two high-priority internal focus areas for CEOs in 2022. In a previous ***C-Suite Challenge™*** survey, CEOs identified the critical traits that make organizations better equipped to predict and respond, including effective and engaged change leaders, an open and transparent "speak-up" culture, communicating consistently and transparently at all organizational levels, and effective use of quantitative analytics to inform decision making.[3]

Labor shortages drive talent retention and recruitment to the top of the CEO agenda in 2022. As bargaining power shifts from employers to workers, companies should prepare for higher wage and benefit costs along with increased turnover in 2022. A wage-price spiral—where higher prices and rising wages feed each other, leading to faster increases in each—may already be in the works in some industry segments or regions within economies.[4] A survey by The Conference Board in November showed an estimated 3.9 percent rise in US salary budgets in 2022, the highest since 2008.[5] There is continued interest in automation as a solution to shortages. Scarce labor highlights the importance of innovative worker-friendly policies.[6] Some of the quickest and most impactful solutions involve making changes to the recruitment process, such as adding or modifying employee referral programs, contracting with staffing firms, implementing new/advanced technologies to streamline recruitment and better target candidates, and shortening the recruitment process with fewer interviews and faster hiring decisions. Another strategy involves expanding into new recruitment demographics and geographies.[7] Other recruitment and retention strategies include increasing flexibility for work virtually, finding ways to retain older workers, and cultivating a speak-up work environment where effective and empathetic managers support workers' needs for work/life balance, and organizational policies are designed to reduce friction. Organizations are "re-recruiting" existing employees to help them see a new path forward and recognizing the sacrifices employees have made over the past two years. Addressing workers' desire for greater flexibility across virtually every aspect of the new work "contract" underpins these strategies.

Remote work, vital to many firms' survival during lockdowns, is here to stay. Executives in 2022 will seek to find the right flexibility formula for their business. CEOs globally expect the number of remote employees will significantly exceed prepandemic levels even once the pandemic subsides. The long-term impact could be far-reaching in the US, with 53 percent of CEOs planning for at least 40 percent of employees to be working remotely after the pandemic subsides, up from 28 percent prepandemic (but down from 78 percent during the pandemic). "Hybrid or remote work" is defined in this survey as working three days or more per week away from the physical workplace. The embrace of hybrid work carries important implications for worker productivity and how organizations hire, lead, and foster a distinct culture. It will also drive

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3 Charles Mitchell, Ilaria Maselli, Rebecca L. Ray, and Bart van Ark, "C-Suite Challenge™ 2019: The Future-Ready Organization," The Conference Board, 2019.

4 Gad Levanon, "Labor Shortages Are Making a Comeback," The Conference Board, May 2021.

5 Gad Levanon, "2022 Salary Increases Are the Highest Since 2008," The Conference Board, December 2021.

6 Levanon, "Labor Shortages Are Making a Comeback."

7 Gad Levanon, Layla O'Kane, Jennifer Burnett, Julia Nitschke, Frank Steemers, and Bledi Taska, "How Employers Combat Labor Shortages," The Conference Board, December 2021.

workers' decisions about where they live and choose to spend their money. Talented people can now reasonably expect opportunities to work when and where they like—and may be prepared to seek employment elsewhere if these choices are denied to them.

Employees don't want to return to what was. Organizations need to create a compelling future vision of the workplace. CEOs, as well as other C-suite leaders, believe that a hybrid model, where a number of employees work together on site some of the time, will increase competition for talent. Around 40 percent of CEOs globally also expect this model will lead to improvements in worker productivity as well as an increase in innovation capacity—long-standing goals for many CEOs. Yet survey responses also indicate concerns that these benefits will come at the cost of the kind of relationships that build strong and successful working cultures over the long run. A majority (61 percent) believe a significant shift in corporate culture will be required for hybrid work to work well in their organizations. More than 85 percent of CEOs and other C-suite executives say a high-performing hybrid work model demands more focus on what makes for effective internal communication and management skills for team leaders and executives. Being clear and decisive about how much hybrid work will be allowed and in what types of jobs, how workers are compensated, and where workers can be located will be crucial. Future hiring, retention, and innovation will depend on organization-wide clarity around these issues.[8]

CEOs expect supply chain disruptions to be a high-impact issue in 2022. Current short-term remedies, such as earlier advance orders and higher inventory targets, have increased volatility and amplified the inflationary effects of shortages. Strong demand for goods and insufficient supply may keep order backlogs elevated, increasing costs for manufacturers and the businesses they supply. Geopolitical tensions contribute to the uncertainty, a key downside risk to The Conference Board outlook for the global economy in 2022.[9] The US and China may intensify trade actions that treat each other as economic and political competitors. Our survey shows that supply chain disruptions, a top-five external stress point for CEOs globally, are being most acutely felt in the US and Europe, as well as in the manufacturing sector. Adapting to new conditions will take time—when governments shut down economic activity to manage the pandemic, supply chains seize and are not easy to start back up.[10] While some short-term supply chain solutions are expensive (air freight, onshoring, leasing of cargo ships, storage, including cold storage), companies that are able to be agile about how they source will reap the rewards. And there's a silver lining to this situation: potential profits. Scarce goods can mean higher prices, potentially bigger margins, and less discounting.[11]

COVID-19 drove a decade's worth of digital transformation. Expect the stepped-up pace to continue in 2022. This is the second-highest priority for CEOs globally for 2022. Adopting digital technologies and ways of working are seen as a pro-customer growth strategy and cost-efficiency measure, and increasingly as a source of productivity gains

8 Levanon et al., "How Employers Combat Labor Shortages."

9 Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

10 Erik Lundh, Ilaria Maselli, Ataman Ozyildirim, Konstantinos Panitsas, Uwe G. Schulte, Klaas de Vries, "The Future of Global Supply Chains: Five Trends," The Conference Board, December 2021.

11 "Supply Chains: Where's Our Stuff?," The Conference Board, podcast, November 2021.

at a time of acute talent shortages and rising wage costs. Investment in technology is only a piece of the digital transformation puzzle. It also requires attention to change management, process reengineering, and workforce upskilling to enable a sustainable, competitive advantage.

Business models are being modified as CEOs strive to improve the customer experience. In an era of hyper-connected customers, where the experience is as important as the product or service itself, CEOs recognize that shifts in how customers spend and make decisions will have a major impact on their organizations in the coming year. *Modifying the business model* and *becoming more customer-centric* are top-ten issues for CEOs globally. Real-time insights on changing consumer behaviors and attitudes are already differentiating marketing functions. Going forward, go-to-market strategies that emphasize customer experience will be crucial to success.

Stakeholder capitalism—the idea that businesses promote the long-term welfare of all their constituents, not just shareholders—has become a primary focus for CEOs. The interests of customers and employees, whose voices are being amplified instantaneously around the world through social media, are front and center in corporate strategy deliberations. Asked which groups are most important when their board and C-suite are making decisions, CEOs and their C-suite colleagues rank customers first, employees second, and shareholders third. For CEOs globally, *evolving stakeholder expectations of the role of business in society* ranks far above *shareholder activism* as a factor expected to have an impact on their company this year.

Admitted lack of preparedness for potential future shocks and crisis. More than 40 percent of CEOs globally say their organizations are well prepared for a major crisis related to a pandemic, financial instability or an economic downturn. However, less than 40 percent say they're well prepared to meet the challenges posed by a major crisis related to inflation, cybersecurity, supply chain disruptions, or climate change. This may raise questions among stakeholders, especially investors, about the resilience of some organizations. Companies' preparedness measures, such as increasing the resiliency and capacity of supply chains and having a climate change strategy or a strong cybersecurity and business continuity plan, signal to stakeholders that a company has an informed and comprehensive approach to responding to future disruptions, either natural or man-made.

C-Suite Outlook 2022

External Impacts on the Radar: COVID-19 Effects Dominate

Our 2022 C-Suite Outlook shows the pandemic will continue to cast a massive shadow over the global business environment. CEOs, C-suite leaders, and their organizations are seeking to be more agile, more resilient, and more innovative in their approaches to everything from business models to cash flow management to supply chains to corporate culture and human capital management. On a macro level, the pandemic and its secondary effects will continue to threaten economic recoveries and challenge the cohesion of many societies.

Pandemic disruptions, inflation, and labor shortages to shape 2022 business environment in major economies

Recession risk is higher for CEOs in Europe and China

Q: Select the external factors that you think will have the greatest impact on your business next year.

CEOs GLOBALLY		US CEOs		Europe CEOs		China CEOs		Japan CEOs	
COVID-19 related disruptions	1	Labor shortages	1	Rising inflation	1	COVID-19 related disruptions	1	COVID-19 related disruptions	1
Rising inflation	2	Rising inflation	2	Recession risk	2	Recession risk	2	Impact of climate change	2
Labor shortages	3	Supply chain disruptions	3	Supply chain disruptions	3	Changes in consumer behavior	3	Labor shortages	3
Supply chain disruptions	4	COVID-19-related disruptions	4	Labor shortages	4	Rising inflation	4	Changes in consumer behavior	3
Changes in consumer behavior	5	Cybersecurity	5	Global political instability	5	Global political instability	4	Recession risk	5
Recession risk	6	Recession risk	6	Volatility in commodity prices	6	Margin compression	6	Volatility in energy prices	6
Global political instability	7	Regulation	6	Volatility in energy prices	7	Global trade disruptions	6	Global political instability	7
Margin compression	8	Changes in consumer behavior	8	Cybersecurity	8	Supply chain disruptions	8	Cybersecurity	7
Cybersecurity	9	Global rise in authoritarianism	9	Regulation	9	Labor shortages	9	Supply chain disruptions	9
Global trade disruptions	10	Corporate tax rates	9	COVID-19-related disruptions	10	More agile competitors	10	Global trade disruptions	9

Note: 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

Labor shortages, inflation concerns cut across sectors

Q: Select the external factors that you think will have the greatest impact on your business next year.

Manufacturing CEOs	Financial Services CEOs	Nonfinancial Services CEOs
Supply chain disruptions	Rising inflation	Rising inflation*
Labor shortages	Labor shortages	COVID-19 related disruptions*
Rising inflation	Regulation	Labor shortages
Commodity price volatility	COVID-19 related disruptions	Recession risk
Recession risk	Cybersecurity*	Changing consumer behaviors
	Declining trust in government*	

* Tied
Note: 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

Inflation concerns soar while recession concerns linger.

Rank: CEOs globally #2, US #2, EU # 1, China #4 (tied), Japan #12

Only CEOs in Japan fail to cite rising inflation as one of their top-four impact factors. Globally, 82 percent of CEOs (with a high of 93 percent in China and a low of 74 percent in the US) say they currently face upward pricing pressures for inputs (e.g., raw materials, wages). Even as inflation is on the rise, there are lingering concerns over recession risk, particularly for CEOs in Europe and China, where the risk is among their top three. Their worry may be justified: The Conference Board sees potential downside risks to global GDP growth over the next year from major slowdowns or recessions in either China or Germany. Negative shocks to real GDP growth in both economies would negatively affect growth among their major trading partners and at the aggregate global level.[12]

Labor shortages are a top economic concern.

Rank: CEOs globally #3, US #1, EU #4, China #9, Japan #3 (tied)

Labor shortages are the top-ranked external stress point for US CEOs this year (ranking third globally). These shortages are due to a variety of factors, including fear of COVID-19 infection, child and adult care challenges, early retirements, skills mismatches, foreign labor mobility restrictions, fewer multiple jobholders, higher savings, and workers quitting for higher pay or to switch industries. According to US government data, labor shortages are the most acute in sectors that are not conducive to remote work, and in many lower-wage occupations. Although firms are deploying various tactics to address labor shortages, including higher pay, signing bonuses, flexible work arrangements, automating jobs and tasks, and retaining older workers, a shrinking labor force may cause shortages to persist even beyond the pandemic.

The rise in government and/or corporate debt is not an immediate concern.

Rank: CEOs globally #19, US #21 (tied), EU #16, China #21 (tied), Japan #28 (tied)

Even though advanced and emerging-market economies have expanded government budget balances and increased debt to underpin businesses and household balance sheets, increasing the risk of future sovereign debt crises, both government and corporate debt levels are rated as low-impact issues for CEOs and other C-suite executives for 2022. However, The Conference Board believes that robust economic growth in the US depends on reducing the national debt as a percentage of GDP. If policymakers fail to enact a long-term plan, the proliferating debt will wreak havoc across sectors and generations.[13] Increased government borrowing would cause a larger share of the savings potentially available for investment to be used for purchasing government securities, such as Treasury bonds. Those purchases would crowd out investment in capital goods—factories and computers, for example—which would make workers less productive and businesses less profitable in the long run.

12 Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

13 Containing the Pandemic Public Debt, Issue Brief, Committee for Economic Development of The Conference Board, May 2021.

Supply chain: Where's our stuff?

Rank: CEOs globally #4, US #3, EU #3, China#8, Japan #9 (tied)

Supply chain disruptions are being most acutely felt by CEOs in the US and Europe (ranked third in each) and those in the manufacturing sector, who rank it as the top external impact issue in the coming year. Considering that just 28 percent of CEOs globally say their organizations are well prepared to deal with a future supply chain crisis (C-suite executives are slightly more optimistic at 34 percent), the relatively low priority for creating *more resilient supply chains* (ranked 13th as a focus area for 2022) may raise red flags for some organizations concerning future supply chain shocks.

Five Trends Shaping Future Supply Chains

Research by The Conference Board highlights five emerging trends in the global business environment that will impact supply chains. Changes to complex supply chains come slowly but will continue to advance in the decade ahead as global businesses contend with evolving transport capacity risks, climate change, geopolitical risks, concerns about sustainability, cyber risk, the high cost of energy, labor shortages, high inflation, government policy shifts, and the possibility of new trade barriers. Here are the five trends shaping future supply chains:

1. **Supply chain agility and resilience will be critical to building a sustainable organization.** Sustainable supply chain practices help companies manage business risks, achieve cost savings through material efficiency gains, enhance their brand reputation, create growth opportunities, and manage suppliers more effectively.
2. **Despite some localization, global production networks will remain a dominant feature of supply chains.** Trade policy in the US, Europe, and China is encouraging localization of manufacturing, especially for inputs considered strategic for key industries. But overall, the foreign content share of manufacturing production is higher today than it was 30 years ago, despite the push to localize.
3. **China will remain one of the main manufacturing hubs of the global economy despite interest from consumers and governments in supplier diversification and, in some cases, decoupling from China.** The scale of China's manufacturing base, supported by government subsidies and its massive internal market, makes it hard for other countries to compete for sourcing. The Chinese government is making it increasingly clear that to sell in China, you have to manufacture in China.
4. **Globalization of services will accelerate.** More innovation and technological advancements in the future will generate new opportunities for not only creating new services but also new ways of delivering them to a global audience.
5. **More localization could add to inflation in the next decade.** The partial undoing of globalization could ultimately increase consumer prices. Since the

start of the pandemic, companies have been looking for a new equilibrium between the high level of optimization of the just-in-time approach toward inventories and the need to build resilience in global supply chains. Creating this resilience will cost money.

Source: Lundh et al., "The Future of Global Supply Chains: Five Trends."

Climate change is seen as a long-term risk.

Rank: CEOs globally #16, US #19 (tied), EU #13, China #30, Japan #2

The relatively low ranking of climate change in terms of short-term business impact (it is ranked 16th globally) does not mean companies are ignoring the issue. Climate change is viewed as more of a long-term risk than an immediate disruptor. In our 2021 survey, CEOs identified heightened awareness of climate risk as one of the long-term legacies of the pandemic (awareness was already growing prior to the pandemic), and it's clear that dealing with and mitigating climate risk is becoming a part of day-to-day operations for many organizations as regulatory and investor attention to this issue continues to mount.[14] Moreover, awareness is growing regarding the costs related to not making the energy transition.[15] More companies are including climate risks in their SEC 10-Ks or equivalent annual reports. In the UK, the number of companies doing so more than doubled in 2020 compared with the previous year. Large institutional investors such as BlackRock and State Street have explicitly called on companies to address climate risks in their reporting.[16]

There is heightened concern over global political uncertainty in Europe and China.

Rank: CEOs globally #7, US #13 (tied), EU #5, China #4 (tied), Japan # 7 (tied)

While overall CEO concern about the impact of global political instability has decreased slightly compared with 2021 (it was ranked fifth globally in 2021, and is seventh in 2022), concern remains heightened among CEOs in Europe and China. A full-on cold war between the US and China is one of the key risks to The Conference Board global outlook for 2022, as it stands to force third-party economies to choose sides and create a bipolar global economy.[17]

Cybersecurity ranks higher as an issue for CEOs in mature economies.

Rank: CEOs globally #9, US #5, EU #8, China #21, Japan #7 (tied)

CEOs in the US, Europe, and Japan view cybersecurity as having a bigger impact on their organizations in 2022, compared with CEOs in emerging markets. Among high-impact external factors, CEOs in mature economies rank cybersecurity issues or challenges sixth overall, while for those in emerging markets the issue is ranked 15th. The concern over cybersecurity and cyber risk appears justified. According to a research study conducted by cybersecurity consultant Deep Instinct, the hundreds of millions of attempted

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14 Charles Mitchell, Dana M. Peterson, Ilaria Maselli, Rebecca L. Ray, and Ataman Ozyildirim, "C-Suite Challenge™ 2021: Leading in a Post-COVID-19 Recovery," The Conference Board, January 2021.

15 Anuj Saush, Paul Washington, and Dana M. Peterson, "Boards and Climate Change: 5 Questions to Ask Management," The Conference Board, November 2021.

16 Thomas Singer, Anke Schrader, and Anuj Saush, "Sustainability Practices 2020," The Conference Board, 2020.

17 Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

cyberattacks that occurred every day in 2020 showed that malware increased by 358 percent overall and ransomware increased by 435 percent, compared with 2019.[18]

US CEOs' concerns are different.

Compared with their global peers, US CEOs have different expectations regarding which issues will have a high impact on their businesses in 2022. US CEOs expect labor shortages, supply chain disruptions, cybersecurity, regulation, a rise in global authoritarianism, corporate tax rates, increased stakeholder expectations for business's role in society, and misinformation/disinformation to have a greater impact on their business environment than do other CEOs across the globe.

Internal Focus for 2022: Talent and Digital Transformation

With labor shortages cited as a top-five external stressor by CEOs globally and the number-one external stressor by CEOs in the US, CEOs across the globe cite talent attraction and retention as their number-one internal focus for 2022. Other focus areas for 2022 include accelerating the pace of digital transformation, improving cash flow, developing the next generation of business leaders, and modifying business models to meet evolving consumer demands.

Talent is the top priority for CEOs globally in 2022

Cost cutting as a priority drops to 9th place in 2022 among CEOs globally from 4th place in 2021.

Q: Select the internal issues your company will focus on in the coming year.

CEOs GLOBALLY		US CEOs		Europe CEOs		China CEOs		Japan CEOs	
Attract and retain talent	1	Attract and retain talent	1	Attract and retain talent	1	Attract and retain talent	1	Attract and retain talent	1
Accelerate pace of digital transformation	2	Modify business model	2	Accelerate pace of digital transformation	2	Improve cash flow	2	Develop "Next Gen" leaders	2
Improve cash flow	3	Develop "Next Gen" leaders	3	Focus more on sustainability	3	Focus more on sustainability	3	Accelerate pace of digital transformation	3
Develop "Next Gen" leaders	4	Improve cash flow	4	Become more customer-centric	4	Develop "Next Gen" leaders	4	Streamline processes	4
Modify business model	5	Prepare for financial instability	5	Improve cash flow	5	Lower costs	4	Focus more on sustainability	5
Streamline processes	6	Employ mergers, acquisitions, divestitures	5	Streamline processes	6	Modify business model	6	Modify business model	6
Focus more on sustainability	7	Streamline processes	7	Develop "Next Gen" leaders	7	Become more customer-centric	7	Become more customer-centric	6
Become more customer-centric	8	Accelerate pace of digital transformation	8	Employ mergers, acquisitions, divestitures	8	Accelerate pace of digital transformation	8	Increase automation	8
Lower costs	9	Mitigate cyber risk	9	Prepare for financial instability	9	Streamline processes	9	Employ mergers, acquisitions, divestitures	8
Prepare for financial instability	10	Become more customer-centric	10	Lower costs	10	Create more resilient supply chains	9	Lower costs	10

Note: 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

18 Deep Instinct, "Malware Increased by 358 Percent in 2020," February 17, 2021.

Global CEO consensus on the need to focus on talent. The importance of a thriving workplace culture, both on and off site, was made clear during the pandemic's disruptions. How will CEOs and human capital executives support this need in 2022? Attracting and retaining workers might mean higher wages, starting bonuses, enhanced benefits like paid leave and subsidized childcare options, and flexible working hours. Firms are lowering their skills and educational requirements for hiring, looking toward more unconventional pools of labor (e.g., younger workers without bachelor's degrees, or formerly incarcerated persons), and offering on-the-job training. All of these actions will require some level of investment. Yet some of the most important factors that contribute to a strong culture, including inclusiveness, creating a psychologically safe workplace, and addressing pay inequality and development opportunities, are relatively low-priority human capital management strategies for 2022. This may signal a disconnect between the commitment to strengthen organizational culture and the specific actions required to do so.

Given that human capital makes up a large share of a firm's intangible assets, a firm's workforce is a fundamental component of its economic value. From 1985 to 2020, the share of the S&P 500's market value comprising intangible assets increased from 32 percent to 90 percent.[19] It's not surprising to see regulatory and investor interest in talent rising as a result. The SEC is expected to issue more prescriptive guidelines for the disclosure of material human capital risks in SEC 10-Ks or equivalent annual reports, following the EU's lead on this issue.[20]

Developing the next generation of leaders. This is a top-five internal priority for CEOs globally, driven by the knowledge that technical skills alone are not sufficient to optimize performance in the current business environment. CEOs believe the hybrid work model requires new leadership skills such as agility, resilience, empathy, digital fluency, inclusive leadership, and interpersonal communication. Leaders today have the additional challenges of blending teams with different on-site/off-site work modes, ensuring fairness and pay equity across the team, attending to the rapid development of skills, and addressing mental health concerns. These leaders will need to figure out how to drive collaboration, innovation, and culture in a hybrid or remote work environment.

A focus on cost recedes somewhat in an inflationary environment. While CEOs are indeed looking to cut costs to protect profit margins related to pricing pressures for inputs, overall, cost cutting is a lower-rated priority than it was in 2021. If rising costs are felt more broadly across economies and within sectors, and enough businesses find that they can raise prices, there may be less concern about losing market share due to price alone. This appears to be playing out in the responses to our survey. Cost cutting ranks 15th in the US and 10th in both Europe and Japan. However, CEOs in the manufacturing sector, stressed by rising input prices, rank it at number five, making it a much higher priority than for CEOs in the services sectors.

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19 Paul Washington and Rebecca L. Ray, "How Boards Can Get Human Capital Management Right in Five (Not So) Easy Steps," The Conference Board, July 2021.

20 Paul Washington, Rebecca L. Ray, Solange Charas, and Amy Lui Abel, "Brave New World: Creating Long-Term Value Through Human Capital Management and Disclosure," The Conference Board, December 2020.

Digital transformation and modifying business models. Pandemic-driven shifts in consumer behaviors have likely ended the luxury of having years to adapt to digital technologies and experiment with business models. *Accelerating the pace of digital transformation* is a top priority. *Business model modification* is closely associated with this transformation and is ranked fifth by CEOs globally. The business model transformation journey requires moving beyond incremental change in how you sell things to a disruptive questioning and redefining of what it is that you make, what it is you sell (is it a product, a service, or both), and how it is sold. It requires asking hard questions about an organization's basic operating assumptions, available talent and skills, agility, and culture. Digital transformation, defined as an enterprise strategy that leverages digital technologies and the data they produce to connect people, physical assets, and processes with a concurrent disruption in culture and business models, is most impactful when it leads to business model innovation, fully leveraging the opportunities the new digital economy introduces.[21] People often equate digitization—using technology to do something better or faster, such as putting physical medical records online or using cloud-based applications—with digital transformation. Digital transformation stretches across the value chain and touches every aspect of business operations, from the initial R&D phase to the final delivery of a product or service. It starts with an assessment of where the biggest digital threats and opportunities lie for specific parts of a business. Before moving from the installation phase of digital transformation to the deployment phase, CEOs need to think about how their culture, organizational design, job structure, operational processes, talent, and policies may need to change.[22]

Sustainability moves ahead. An increased focus on sustainability is the seventh-ranked priority for CEOs globally, even though most CEOs don't see issues such as climate change or wealth inequality as having a significant impact on their business in the near term. While there is no single "correct" organizational model, successful companies manage sustainability as a cultural change; identify, define, group, and rank key priorities (challenges and opportunities); and enroll senior leadership to build a culture of sustainability by embedding practices throughout the organization. The objective is to gain "top of the pyramid" recognition that sustainability is an important priority that affects the company's core business goals (either positively or negatively).[23] While CEOs in the US rank *focus more on sustainability* as a middle-of-the-pack internal focus (12th), below its rankings in Europe, China, and Japan, we believe this is more a reflection of the progress that US companies have made in this area, as opposed to a lack of concern.

21 Xiaohui Hao, Sean Hicks, Charles Popper, and Chander Velu, "Realizing the Full Potential of Digital Transformation: Three Areas of Focus," The Conference Board, June 2020.

22 Charles Mitchell, "Beyond Technology: Building a New Organizational Culture to Succeed in an Era of Digital Transformation," The Conference Board, January 2017.

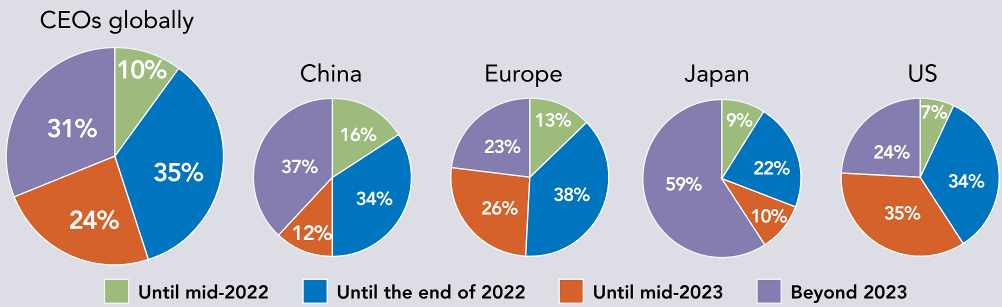
23 Thomas Singer, "Organizing for Success in Corporate Sustainability," The Conference Board, November 2021.

Inflation hits: What are CEOs planning for?

Our annual survey shows just over half of CEOs around the world expect the current inflationary environment to last into 2023 or beyond. To cope, they're looking for ways to lower costs and/or pass price increases downstream to customers. For some, price increases will cut into profit margins.

Are you facing upward pricing pressures for inputs (e.g., raw materials, wages, from suppliers)? Yes.

How long do you anticipate elevated pricing pressure to last?



What do you believe is driving consumer/customer prices higher? (Select no more than three).

	Manufacturing CEOs	Financial services CEOs	Nonfinancial services CEOs
Supply chain bottlenecks	1	1	1
Labor shortages	3	2	2
Energy prices	4	3	6
Insufficient supply for inputs to our product/service	2	6	4
Government regulations	6	4*	3
High demand for our product/service	5	8	7
Workers demanding higher wages	8	4*	5
Increased pricing power amid strong economic growth	7	7	8
Minimum wage hikes where my business is located	9	9	9

* Tied

How do you expect to manage intensifying pricing pressures in the next 12 months? (Rank)

1. Cut costs
2. Pass price increases downstream
3. Absorb prices into profit margins
4. Change suppliers

Note: 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

Inflation: It May Be Around Longer Than You Think

The threat of new virus variants notwithstanding, the near-term outlook for the global economy is promising. There should be a continuation of the well-above-long-term trend in real GDP growth in 2022 (3.9 percent year over year), led by continued expansions in the US and Asia, and recoveries from the pandemic throughout much of the rest of the world. However, elevated inflation globally is likely to persist in 2022 and potentially into 2023.[24]

While both spurts in growth and higher prices might prove transitory, these pandemic-induced changes will have powerful implications for inflation dynamics ahead. And in the view of a majority of CEOs in our survey, this upward pricing pressure will persist into 2023 or beyond.

Rising inflation is the number-two high-impact issue for businesses in 2022, up from 22nd globally just a year ago. Globally, 82 percent of CEOs— and 95 percent of manufacturing sector CEOs—say they currently face upward pricing pressures for inputs (e.g., raw materials, wages). They identify the main drivers of this pressure as supply chain bottlenecks, labor shortages, and energy prices.

Duration: A majority of CEOs globally (55 percent) see inflation persisting past 2022, with 24% expecting elevated pricing pressures to last until mid-2023 and 31% expecting it to last beyond 2023.

Coping strategies: To mitigate the impact of rising input prices, CEOs are looking to cut costs for inputs, passing increases downstream to consumers and end users (the most favored action by US CEOs), and, if able, absorbing price increases into profit margins, though there are few signs that companies are willing to sacrifice profit margins at present.

Inflation: What Lies Ahead

The Conference Board believes that some inflationary pressures are specifically linked to pandemic disruptions, and may moderate once the pandemic begins to subside. However, we also think that other drivers of higher inflation are likely more enduring. When COVID-19 became a pandemic in early 2020, prices collapsed, reflecting a rout in oil prices and global demand. However, starting in early 2021, the cost of almost everything began to rise aggressively, developing into another crisis unto itself.[25]

- **Other factors causing higher prices are mainly linked to easy monetary and fiscal policies.** Demand for goods was supercharged, especially among economies that deployed copious amounts of fiscal stimulus in the form of direct transfers to households (e.g., stimulus checks, unemployment insurance). Low interest rates dampened mortgage rates, stoking a tsunami of demand for a limited supply of homes. The adoption of hybrid work also boosted demand for homes as many workers departed cities for suburbs and less congested

24 Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

25 Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

areas. Consequently, new and existing home prices surged in the hottest markets around the world.

- **However, there is no guarantee that inflation will return to prepandemic lows, with some "transitory factors" becoming more persistent, and other sources of inflation on the rise.** For example, there could be continued strong demand for both goods and services. Indeed, once the pandemic ends or governments and consumers feel more comfortable operating during it, service sector activity should revive, stoking another round of inflationary pressures. Semiconductor chip shortages may not be resolved quickly, as it takes time to build new facilities to produce them.
- **At the same time that sustained high inflation is a risk, so is disinflation and deflation, surprisingly.** Once the pandemic ends, or the world learns to cope with it, there may be a number of factors that cause inflation to cool very quickly, causing an equally dangerous threat of disinflation or deflation.

Source: Peterson, "StraightTalk® A Deep Dive on Risks to the Outlook."

Assorted Factors Contribute to Faster Global Inflation

Some Will Fade With the Pandemic; Others Will Linger

Temporary Factors	Persistent Factors
√ Strong demand for goods	√ Continued demand for goods
√ Emerging demand for services	√ Continued demand for services
√ Energy price volatility	√ Semiconductor shortages
√ Easy monetary, fiscal policies	√ Millennial housing demand
√ Strong demand for housing	√ Work from home vs. cities
√ Factory closures abroad	√ Labor shortages
√ Supply chain bottlenecks	√ Deglobalization
√ Transportation costs	√ Supply chain bottlenecks
√ Commodity prices	√ Industrial policies
√ Semiconductor shortages	√ Limits to labor mobility
√ Wages - labor shortages	√ Transition to renewables
√ Wages - Great Resignation	√ Easy monetary/fiscal policies

Source: The Conference Board

Leading in a New World of Work: Hybrid Model and Remote Work

We are not returning to the world of work we knew before the pandemic. However, corporate responses to the changing landscape are often stopgap measures—the shifting "return to the physical workplace" timelines are a perfect example. The workplace, the nature of work, worker sentiment, expectations for leaders and organizations, and even the "contract" between workers and employers have all fundamentally changed—or perhaps more accurately, they are still in the process of changing.

Defining the Hybrid Workplace Model

- A hybrid workforce is composed of a variety of workers: full-time and/or part-time employees, temporary and/or contractual workers, and perhaps volunteers.
- A hybrid workplace allows for collaborative work to be done by those physically in the workplace as well as those who are remote. It can also include robotics or other digital technologies.
- A hybrid work schedule is a blend of flexible (in-office and remote) work for each worker.

The Challenges and Opportunities Ahead

Remote work is a long-term legacy of the pandemic. The way the world works is changing for good. Hybrid or remote work (defined in this survey as working three days or more per week outside of the physical workplace) spiked during the pandemic, but CEOs expect the number of remote employees to recede postpandemic. Prior to the pandemic, 40 percent or more of employees were working remotely for 17% of responding organizations. During the pandemic that spiked to 58 percent of respondents. A third of CEOs globally expect 40% of their workforce will be remote after the pandemic subsides—almost double the prepandemic level.

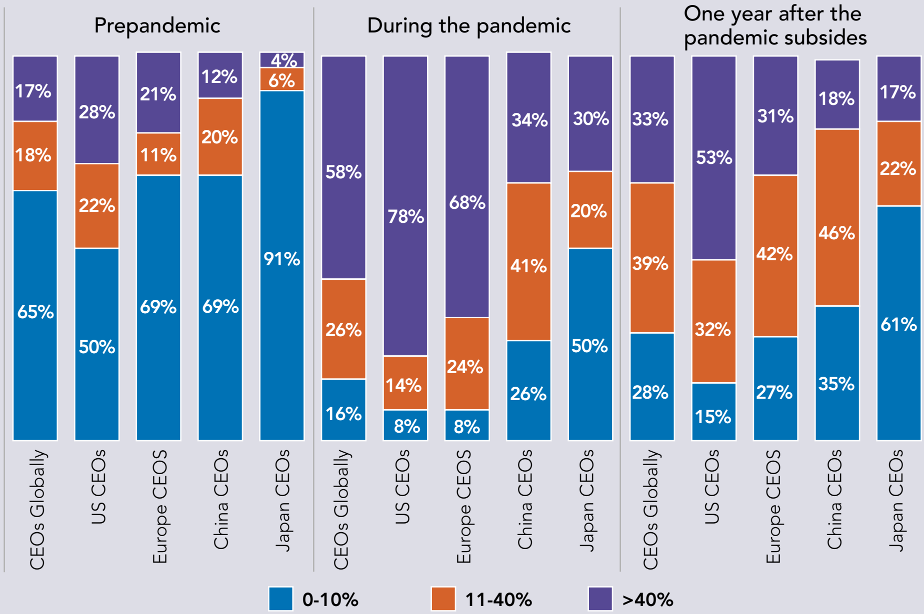
US CEOs are embracing hybrid work. The long-term impact of the pandemic is most profound in the US, with 53 percent of organizations expecting 40 percent or more of their employees to be working remotely after the pandemic subsides, up from 28 percent prepandemic, but down from 78 percent during the pandemic. The long-term stickiness of remote work is less pronounced in China and Japan, which have more traditional workplace cultures, including office face time, and where worker productivity and commitment are often judged by long hours on the job. In both countries, the projected postpandemic numbers are relatively close to their prepandemic totals. Also, as the US economy has less manufacturing than China, remote work can be seen as a more viable option there. Perhaps most telling is that less than a third of CEOs globally and just 21 percent of other C-suite executives agree with the statement that a hybrid workforce is "a temporary fix; it is not sustainable for the long term."

A hybrid workplace is not without its challenges (and opportunities). Respondents in the US and Europe fear a *decrease* in the quality of internal relationships and internal collaboration, more than their Asian counterparts do. CEOs in China see a benefit of greater external collaboration and innovation. But reconnecting remote employees to mission and purpose

Remote work saved many firms during pandemic lockdowns. Now CEOs and C-suite executives say hybrid work is here to stay.

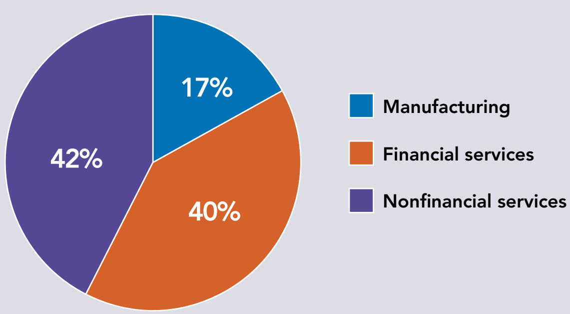
Regional attitudes toward remote work are apparent. US CEOs most likely to lean into hybrid models yet less likely to see a need to revamp total rewards packages.

What percent of your full-time employees primarily work virtually/remotely (at least three days a week)?



How much will the workplace change?

Share of CEOs who expect remote work for at least 40% of full-time employees once the pandemic subsides.



CEOs: Communications and people management skills have to improve for the hybrid model to succeed

Q: I believe hybrid workforce will…

	CEOs globally	US CEOs	Europe CEOs	China CEOs	Japan CEOs
Require more effective internal communication	88%	88%	90%	84%	86%
Require managers/team leaders to develop new skills	86%	90%	84%	86%	84%
Require significant change in our corporate culture	61%	44%	66%	78%	51%
Require a new Total Rewards structure	54%	40%	42%	76%	62%
Dilute existing corporate culture	47%	43%	57%	42%	38%
Create an uneven playing field between on-site and remote workers	45%	45%	38%	51%	30%
Be a temporary fix; it is not sustainable in the long term	30%	27%	30%	41%	20%
Create taxation issues	24%	31%	20%	27%	11%

Note: 917 CEOs globally; "agree" and "strongly agree" responses only.

Source: The Conference Board® C-Suite Outlook 2022

will require a communications effort on par with reaching customers, investors, and other stakeholders on major strategy changes. In this new hybrid world of work, rather than simply mandating a return date and the safety protocols that will be in place, leaders should think about articulating a compelling reason to return to the workplace at all: the future vision that must be built together in teams, the exciting product launches, the mentoring program for early-in-career workers, or the celebrations of people and their accomplishments.

CEOs expect the hybrid work model will intensify competition for talent and lead to improved talent retention, productivity, and innovation. Yet there are clear concerns over the impact on aspects of company culture.

CEO views on the impact of the hybrid work model

Q: In the next 12 months, how would a hybrid model impact…

% CEOs expect an increase in …		% CEOs who expect a decrease in…	
Competition for talent	57%	Quality of internal relationships	52%
Talent retention	42%	Strength of the culture	46%
Worker productivity	41%	Internal collaboration	43%
Innovation	41%	Pace of skill building	39%

Source: The Conference Board

Building a high-performing hybrid workplace. CEOs globally overwhelmingly believe that more effective communication and new leadership skills are essential for building a high-performing hybrid work model. Also, a significant change in corporate culture and a dilution of the existing corporate culture are projected impacts of a hybrid workplace, particularly among CEOs in Europe. More than half of global CEOs as well as half of C-suite leaders believe that a hybrid model will require a new total rewards structure; Asian CEOs felt the most strongly about this. Total rewards conversations will take center stage for many organizations as they sort out salary structures that may be disconnected from the cost of living in urban headquarter areas, and address pay equity across the organization as well as the inherent fairness of compensation for those groups who are at greater risk of COVID-19 exposure on the front lines. US CEOs see cultural change and revamping of their total rewards packages as less of an issue compared with their global peers—an indication that the US may be ahead of other countries and regions when it comes to adapting to the hybrid workplace.

Leadership Behaviors and Hybrid Work

Research by The Conference Board has identified the following set of leadership behaviors to keep employees engaged during the COVID-19 crisis and afterward in a hybrid/remote work mode:

- **Reinforce the organization's vision.** Reminding employees of the compelling vision and values of the organization is especially important during challenging and stressful times.
- **Communicate with transparency to bring people along.** Messages should be uplifting, but also acknowledge the challenges and stressors that workers are facing.

- **Set a clear direction for what's ahead.** With many teams working remotely and business conditions changing rapidly, setting direction and guidance becomes more critical, even as work becomes more challenging to navigate.

- **Create a virtual/remote team contract to maintain work standards and boundaries.** Working on a virtual contract as a team will set expectations for all team members and help them stay focused on goals.

- **Seek feedback and empower individuals and teams.** When working in a shared office, it is easy to stop by a cubicle or gather as a team to provide feedback and ideas, but this becomes more challenging in a remote environment. Ways to empower people include adopting an open-door policy through regular one-on-ones, seeking input from all team members to ensure an inclusive environment, and recognizing team members for their contributions and accomplishments.

- **Maintain trust and integrity through a focus on well-being.** A focus on health and safety during the pandemic is critical as employees struggle with a multitude of changes, both professional and personal. This will remain in a hybrid work environment.

- **Inspire innovation through new tools and technologies.** Teams may not be able to function and collaborate as usual in a virtual environment. To prioritize productivity, team leaders should check to see whether every team member is aware of the organization's available communication and collaboration tools, and consider individual or team tech training to ensure that everyone is comfortable using them.

- **Drive personal development in a virtual environment.** Most employees find virtual communication less productive than in-person interactions. Leaders must provide learning opportunities so that employees can remain effective in a virtual environment and continue to develop new skills, even while adjusting to changes.

Source: The Conference Board; adapted from Amy Lui Abel and Amanda Popiela, "Human Capital Management During COVID-19: Leading Virtual Teams in a Crisis."

Human Capital Management Priorities for 2022

In recent years we have seen a fundamental shift: from organizations believing talent to be readily available in the marketplace to an internal focus on developing and retaining employees amid tightening labor markets. In many countries rapidly aging populations and shrinking labor forces make innovative talent solutions a crucial priority. In this year's survey, CEOs say that the recruitment and retention of talent is their top internal priority. To address that concern, their human capital management priorities for 2022 focus on the core elements of talent management—recruitment, retention, and development—with an emphasis on building more employee-centric cultures around innovation, skill development, leadership development, and agility.

Talent priorities for 2022: CEOs are focused on agile teaming and innovation. Human capital executives are looking to strengthen leadership pipelines and optimizing hybrid work as they shepherd employees back into the physical workspace.

Select the issues for human capital management that your company will focus on in the coming year. (Select no more than five)

CEOs		HC Executives	
Build agile teams	1	Strengthen the leadership pipeline	1
Build a more innovative culture	2	Strengthen organizational culture to retain talent	2
Strengthen the leadership pipeline	3	Optimize hybrid work model performance	3
Strengthen organizational culture to retain talent	4	Develop workforce capabilities	4
Build a resilient workforce to prepare for future challenges	5	Recruit a more diverse workforce	5
Develop workforce capabilities	6	Build a resilient workforce to prepare for future challenges	6*
Optimize hybrid work model performance	7	Address mental health needs of employees	6*
Improve corporate brand and reputation to attract talent	8	Offer flexible work arrangements and schedules	8*
Build a culture that embraces change	9	Build a more inclusive culture	8*
Engage all levels of workers	10	Engage all levels of workers	10

* Tied
Note: Responses from 897 CEOs globally and 79 human capital executives.
Source: The Conference Board® C-Suite Outlook 2022

The quest for agility and more innovation. In the unique current environment of inflation and labor and supply shortages, CEOs are prioritizing agile teams and a more innovative culture to move their organizations up the learning curve. CEOs have gradually been shifting their focus away from seeing technology as a magic bullet for innovation and embracing a more integrated approach—one that recognizes the inseparable link between culture, talent, and innovation. The innovation challenge is no longer about the technology itself—which is abundant and readily available—but rather, about building a culture that enables the people within an organization to maximize the potential of that technology, thus facilitating the organization's ability to become a world-class innovator.[26]

Flexible arrangements. Aligned with their commitment to a postpandemic hybrid workforce, US CEOs rank offering flexible work arrangements and schedules—which our research shows is a critical employee retention tool—considerably higher than their global peers. US CEOs are also more aligned with the C-suite on this strategy. Research conducted in 2021 by The Conference Board reveals the importance of such flexible arrangements. More than one-third of US workers said they planned to leave their jobs within the next six months.[27] Of those respondents, a flexible work location was ranked as the most desirable aspect of a new job, prioritized slightly over better pay and career advancement, the two traditional drivers of job changes.

CEO disconnect. While our research on employee engagement and culture shows that a strong, positive culture (which includes a psychologically safe workplace, fairness in pay, developmental opportunities, and addressing mental health needs) is critically important, these elements are ranked low across the board by CEOs. The global CEO ranking of

26 Mary B. Young, Charles Mitchell, and Michelle Kan, "Inclusion + Innovation: Leveraging Diversity of Thought to Generate Business Growth," The Conference Board, January 2016.

27 Rebecca L. Ray, "US Workers Are Looking for Flexible Work Arrangements," The Conference Board, 2021

engage all levels of workers (10th) will not be possible without addressing these underlying drivers of engagement.

A question of alignment. The 2022 priorities laid out by human capital executives show noteworthy differences from the priorities selected by CEOs, highlighting the CEOs' big picture strategic view versus the day-to-day executive view required by the HR function. While both rank *strengthen the leadership pipeline* as a top three priority, human capital executives are more focused on *optimizing hybrid work model performance* (a top three priority), and creating a *more inclusive culture* that more easily embraces change. To ensure that HR is aligned with business needs and anticipates future challenges or opportunities, the strategic human capital plan should be frequently reappraised against emerging business needs or revised strategies. This requires the function to be highly agile at continually aligning and realigning the people strategy to shifting business needs and priorities.[28]

The Human Capital Challenges Ahead

Human capital leaders must prepare for a workforce that is increasingly remote. This means:

- Employees may be recruited from new locations and with new expectations.
- Proper onboarding and adaptation will be important to engage remote workers and ensure they are properly informed about organizational practices.
- Growth and development practices may make greater use of technology, and the pandemic may open pathways to new learning opportunities.
- Leaders will require new skills to lead a dispersed team, and workers will also need to adjust to new ways of working.
- Employee health and well-being will become more critical than ever.
- Compensation and benefits adjustments may be required.

Source: The Conference Board, "A Human Capital-Focused Guide to Remote Work."

28 Marion Divine, "Next-Generation HR: Executive Summary," The Conference Board, January 2021.

ESG Priorities: Shifting to a Stakeholder Focus

The shift away from a shareholder focus to a broader group of stakeholders is tangible and is affecting discussions, decisions, and actions at the board and C-suite level. There is an increased focus on environmental and social issues, equity, inclusion, employee well-being, workforce management, and community impact.[29] When asked which groups are most important when the board and C-suite make decisions, CEOs in every country and region covered in our survey rated shareholders third, behind customers and employees. The reality is that as the interests of a broad array of stakeholders—in particular customers and employees—become more prominent and amplified, few (if any) CEOs can successfully run a company for the long term with shareholder interests as their sole management goal.

Defining Terms: Stakeholder Capitalism and Environmental, Social & Governance (ESG)

Stakeholder capitalism: Stakeholder capitalism—the essence of which is that businesses should serve the long-term welfare of multiple constituents, not just shareholders—has been embraced by business leaders, investors, and governance practitioners alike. As noted by The Conference Board in 2017, this approach is essential to long-term value creation, because companies cannot prosper over the longer term without taking appropriate care of their customers, employees, owners, suppliers, the environment, and the communities in which they do business.

Environmental, Social & Governance (ESG): ESG is a wide-ranging concept that reflects the view that if companies, investors, and policymakers consider these three categories of issues in addition to traditional financial measures of performance, it will result in more competitive companies, resilient markets, and sustainable economic development. ESG has evolved over time; varies by geography, industry, and company; and includes issues ranging from climate change mitigation to pollution and resource use to employee health, safety, and wellness to workforce diversity to political contribution disclosure. While stakeholder capitalism focuses on "whom" a company serves, ESG focuses on "what" issues companies should be concerned with in addition to traditional financial performance. Corporate directors are increasingly embracing ESG metrics to track internal and external company progress toward concrete, long-term goals.

29 Charles Mitchell, Paul Washington, Rebecca L. Ray, Dana M. Peterson, and Lori Esposito Murray, "Toward Stakeholder Capitalism: What the Shift Means for CEOs and the C-Suite," The Conference Board, December 2021.

CEOs indicate the interests of a broader group of stakeholders are prominent in strategy deliberations—a sign that the move to a stakeholder focus is gaining traction

Q: Which groups are most important when your board and C-suite are making decisions? (Rank)

CEOs globally	
Customers	1
Employees	2
Shareholders	3
Business partners	4
Regulators	5
Communities	6
NGOs, Social and Env. activists, etc.	7
Media	8

Rank your organization's ESG-Environmental priorities.

Energy	1
Climate	2
Waste	3

Rank your organization's ESG-Social priorities.

	CEOs globally	US CEOs	Europe CEOs	China CEOs	Japan CEOs
Economic opportunity/equality	1	1	3	1	2
Labor conditions	2	6	1	2	1
Gender equality	3	3	2	5	6
Public health	4	5	5	3	4
Human rights	5	7	4	4	3
Racial equality	6	2	6	7	7
Democracy/Election/Voting Rights	7	4	7	6	5
Immigration/nationalism	8	8	8	8	8

Note: 917 CEOs responded globally. Chart updated 01/13/2022 to align ordering by dropping "other" response category. Relative ranking did not change.
Source: The Conference Board C-Suite Outlook 2022

CEOs should seek to build greater consensus in the C-suite on how to approach sustainability. Orientating a company toward a focus on its long-term impact on society and the natural environment can have profound implications for its business model, products and services, and operations. This transition requires a clear consensus among the C-suite on what issues matter to the company, the strategy to address them, and the importance of this shift. Globally, CEOs rank sustainability seventh as an internal issue to focus on in the coming year (rankings on page 12) but the sense of urgency in the C-suite ranges from human capital leaders (who are often directly exposed to the rising expec-tations of employees on sustainability matters), who rank it third to CFOs, who rank it tenth (rankings for these functions not shown). As highlighted in a recent report from The Conference Board, CEOs need to ensure that their CFOs and finance teams—who often control the planning and capital allocation processes at a company—are fully engaged in these efforts, in part by including finance on the firm's internal sustainability steering committees.[30] Closing the gap between a company's commitment and words and its resources for sustainability can do more than fend off allegations of "greenwashing." It can lead to a greater ability to capitalize on business opportunities and build trust with customers, employees, investors, and other stakeholders.

Signs of an emerging era of stakeholder capitalism. *Evolving stakeholder expectations of the role of business in society* ranks far above *shareholder activism* as a factor CEOs expect to have an impact on their company in 2022. However, our research shows that behind their words and commitment, CEOs need to have thoughtful plans on how a stakeholder management focus will be governed, executed, measured, and disclosed. Becoming a more socially responsible stakeholder-focused company requires an intentional strategy that includes setting objectives, using metrics, and ensuring accountability to meet goals. And it appears that many organizations may not yet be at the operational stage. For example, addressing income and wealth inequality, equality in pay, and development opportunities are near the bottom of priority lists for internal focus and human capital management priorities.

Preparing for What Comes Next

What new crises, either natural or man-made, may emerge in the coming year is impossible to predict. But with some foresight and investment, the impact of crippling disruptions can be minimized by reducing risk exposure and taking preventive measures. Many companies continue to concentrate on the traditional elements of business continuity over which they have direct control, such as redundant IT networks, offsite data storage, and electrical backup generators. Companies have paid much less attention than they should to other issues that are as important to resilience, but over which they have less control, such as coordination with government and private-sector organizations that provide essential services, improving the adaptability of supply chains, and the ability of employees to recover from a disaster.

Our survey finds a general admitted lack of preparedness for future shocks, which may raise questions among stakeholders, especially investors, about the resilience of some organizations. A company's preparedness measures, such as having a climate change strategy or a strong cybersecurity and business continuity plan, signal to stakeholders, especially investors, that it has an informed and comprehensive approach to responding to future disruptions, either natural or man-made.

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30 Singer, "Organizing for Success in Corporate Sustainability."

CEOs less likely to say their organizations are prepared to meet challenges posed by future crisis related to inflation and cybersecurity

Q: How well prepared is your organization to deal with a major crisis related to…

	CEOs globally	Other C-suite leaders
Pandemic	**49%**	**60%**
Financial instability	**46%**	**51%**
Economic downturn	**41%**	**44%**
Inflation	**38%**	**45%**
Cybersecurity	**37%**	**51%**
Natural disaster	**30%**	**34%**
Supply chain disruptions	**28%**	**34%**
Climate change	**26%**	**28%**

Note: 1614 C-suite executives in total and 917 CEOs responded globally.
Source: The Conference Board® C-Suite Outlook 2022

Who Is Ready for What?

- A total of 66 percent of CEOs in Europe and 55 percent in the US say their organizations are well or very well prepared to handle a future pandemic-related crisis, compared with 28 percent of CEOs in China and Japan.
- However, both globally and in the US, less than 40 percent of CEOs say their organizations are well prepared to meet the challenges posed by future crises related to inflation, cybersecurity, natural disasters, supply chain disruptions, and climate change.
- Functional leaders—the C-suite team— generally signal a greater readiness to handle potential systemic disruptions. The gap is widest on cybersecurity threats: 51 percent of C-suite executives say their organizations are well prepared to meet a crisis, compared with just 37 percent of CEOs.

While companies and countries are constantly adapting to past shocks and crises, there is a need to shift to predicting future shocks and creating resiliency to mitigate their impacts.

Differing Priorities and Concerns for CEOs in China and the US

The priorities set by CEO respondents based in the world's two largest economies are a study in contrasts. While there are many commonalities to be expected from companies that operate in the same macro global business environment, the differences in their views on remote work, hybrid work models, and preparedness for future shocks are telling. The contrasts reflect the different micro business climates, national cultures, and economic systems CEOs face in each country.

External impacts. While CEOs in the US and China agree that COVID-19 disruptions will have the greatest impact on their organizations in the coming year, beyond that there is little they agree on.

CEOs in the US see the following as more significant external stressors in 2022 than their Chinese counterparts:

- Labor shortages (US #1, China #9)
- Supply chain disruptions (US #3, China #8)
- Cybersecurity (US #5, China #21)
- Corporate tax rates (US #9, China #18)
- Regulation (US #6, China #14)

CEOs in China see the following as more significant external stressors in 2022 than their US counterparts:

- Recession risk (China #2, US #6)
- Global political instability (China #4, US for #13)
- Margin compression (China #6, US for #13)
- Global trade disruptions (China #6, US #19)

Recession risks loom especially large for CEOs in China. Close to 40 percent of CEOs in China fear a recession over the next 12 months. In China, the glacial recovery in consumer spending and the weakness in the housing market, along with the return to the "Long Soft Fall" economic policy, suggests the potential for a substantial decline in real GDP growth over the next year. New government policies, including the notion of shared prosperity, may promote select industries while deemphasizing others, potentially also stoking recession concerns.

US CEOs are more enthusiastic about a hybrid work model. The long-term impact of remote and hybrid work models will be most profound in the US, with 53 percent of organizations expecting to have 40 percent or more of their employees remote after the pandemic subsides. Just 18 percent of CEOs in China (which is more dependent on manual labor manufacturing) expect to have 40 percent or more of employees working remote postpandemic. CEOs in China are more likely to see a hybrid work model as a temporary fix and not sustainable over the long run (41 percent), compared with just 27 percent in the US who share that view:

- 78 percent of CEOs in China believe a hybrid work model will require a major cultural shift compared with just 44 percent of CEOs in the US who believe that will be the case.
- 76 percent of CEOs in China see a need to revamp their total rewards packages for workers to fit the model, compared with just 40 percent in the US who see that need.
- 43 percent of CEOs in China see productivity decreasing with the adoption of a hybrid work model, compared with 23 percent of CEOs in the US.

Internal focus for 2022. While CEOs in both countries cite attracting and retaining talent as their top internal focus for 2022, CEO respondents in the US are more focused on:

- Modifying business models (US #2, China #6)
- Streamlining process (US #7, China #9)
- Employing mergers and acquisitions (US #5, China #16*)

CEOs in China have a more intense focus on:

- Improving cash flow (China #2, US #4)
- Focusing on sustainability (China #3, US #12)
- Lowering costs (China #4, US #15*)
- Creating more resilient supply chains (China #9, US #15*)

*Tied

About The Conference Board® C-Suite Outlook

The anonymous survey was carried out between October and November 2021, with 1,614 C-suite executives responding, including 917 CEOs from around the world. This is the 23rd annual survey coordinated by The Conference Board. We are grateful for the collaboration with 11 organizations globally that invited their members and contacts to take the survey.

Since 1999, The Conference Board has fielded an annual survey asking CEOs across the globe to identify the most critical issues they face (The Conference Board CEO Challenge®). The survey was expanded in 2018 to include the C-suite (C-Suite Challenge™).

While CEO and C-suite priorities certainly vary by company, we believe this report can serve as an idea prompter for decisionmakers within organizations by offering insights into challenges shared by many of their peers, and the strategies and tactics being considered to compete in a global marketplace.

Profile of respondents

- Among major regions or economies, 17 percent of CEO respondents are based in the US; 16 percent in South America; 13 percent in Japan; 12 percent in Europe; and 9 percent in China.
- By sectors, 64 percent of CEO respondents are based in nonfinancial services businesses; 25 percent in manufacturing industries; and, 11 percent in financial services.
- By size, 66 percent of CEOs are based in businesses with average annual revenue of less than $100 million; 25 percent averaging up to $5 billion; and 9 percent averaging $5 billion and above.
- By company role, 57 percent of a total of 1,614 respondents are CEOs; 6 percent are CMOs; 5 percent are CFOs; 5 percent are human capital executives (HCEs); and the remaining 27 percent have other C-suite titles.

Methodology

To provide a more representative view of respondents from around the world, we weighted the responses in aggregates (such as global and major regions) by the square root of the respondent's country share in global output (GDP) divided by the respondent's share in the total number of responses from their country.

Appendix

Results tables

Select the external factors or issues that you think will have the greatest impact on your business next year. (Select no more than five)

	Global CEO	US CEO	EU CEO	China CEO	Japan CEO	Global C-Suite (non-CEO)
COVID-19 related disruptions	1	4	10	1	1	3
Rising Inflation	2	2	1	T-4	12	4
Labor shortages	3	1	4	9	T-3	1
Supply Chain disruptions	4	3	3	8	T-9	2
Changes in consumer behavior	5	8	12	3	T-3	5
Recession risk	6	T-6	2	2	5	7
Global political instability	7	T-13	5	T-4	T-7	11
Margin compression	8	T-13	14	T-6	15	13
Cybersecurity	9	5	8	21	T-7	6
Global trade disruptions	10	T-19	17	T-6	T-9	12
Regulation	11	T-6	9	14	T-13	8
Volatility in commodity prices	12	17	6	11	11	9
Volatility in energy prices	13	T-23	7	12	6	10
Global rise in authoritarianism (i.e., rise in nationalism and populism)	14	T-9	21	13	T-19	17
Declining trust in government	15	15	11	20	T-17	21
Impact of climate change	16	T-19	13	30	2	14
Corporate tax rates	17	T-9	15	18	T-25	19
More agile competitors	18	16	18	10	T-13	15
Government debt levels	19	T-21	16	T-21	T-28	22
Evolving stakeholder expectations about business role in society	20	11	25	T-15	16	16
Misinformation/Disinformation	21	12	23	T-21	T-23	18
Higher borrowing costs	22	25	19	19	T-17	23
Lack of infrastructure investment	23	18	20	17	T-21	20
Wealth and/or income inequality	24	T-21	27	T-26	T-25	24
Corporate debt levels	25	T-26	26	T-15	T-23	28
Other	26	T-23	24	29	T-21	27
Vaccine availability for COVID-19	27	T-26	22	T-21	T-19	30
Future of cities	28	T-29	28	T-21	T-28	25
Cryptocurrencies	29	T-29	30	T-26	30	26
Shareholder activism	30	T-26	28	T-26	T-25	29
N=	**917**	**231**	**103**	**95**	**119**	**697**

Note: T indicates a tie in the rankings

Source: The Conference Board

Select the internal challenges or issues that your company will focus on in the coming year. (Select no more than five)

	Global CEO	US CEO	EU CEO	China CEO	Japan CEO	Global C-Suite (non-CEO)
Attract and retain talent	1	1	1	1	1	1
Accelerate pace of digital	2	8	2	8	3	2
Improve cash flow	3	4	5	2	13	12
Develop "Next Gen" leaders	4	3	7	T-4	2	3
Modify business model	5	2	14	6	T-6	8
Streamline processes	6	7	6	T-9	4	4
Focus more on sustainability	7	12	3	3	5	5
Become more customer-centric	8	10	4	7	T-6	6
Lower costs	9	T-15	10	T-4	10	7
Prepare for financial instability	10	T-5	9	T-13	T-24	15
Mitigate cyber risk	11	9	11	T-18	T-14	10
Increase automation	12	T-13	20	15	T-8	13
Create more resilient supply chains	13	T-15	12	T-9	18	9
Employ mergers, acquisitions, divestitures	14	T-5	8	T-16	T-8	11
Significantly change corporate strategic priorities	15	11	19	11	T-16	14
Improve corporate communications	16	T-13	13	T-18	T-14	16
Update crisis contingency plans	17	T-19	22	T-13	T-16	22
Improve board governance	18	T-19	17	T-16	12	21
Re-think corporate real estate/space needs	19	T-15	15	T-18	22	19
Revisit mission and/or purpose	20	18	25	12	11	17
Pay down debt	21	24	21	T-18	19	24
Prepare for rising interest rates	22	19	16	24	T-24	23
Decentralize decision making	23	25	18	22	21	18
Significantly change capital allocation priorities	24	T-19	24	23	20	20
Other	25	T-19	23	25	23	25
N=	**917**	**231**	**103**	**95**	**119**	**697**

Note: T indicates a tie in the rankings

Source: The Conference Board

Acknowledgments

We would like to thank our partners and respondents, without whom this report would not have been possible. We are grateful to Konstantinos Panitsas, Research Analyst, Europe, and Judit Torok, Senior Research Analyst, for their invaluable assistance.

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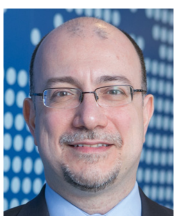

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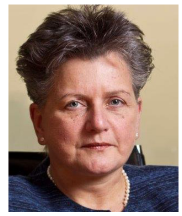

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